



**EXECUTIVE CHAMBERS
HONOLULU**

GOVERNOR LINDA LINGLE

2005 STATE OF THE STATE ADDRESS

A Year of Optimism and Opportunities

Mr. President, Mr. Speaker, Lt. Governor and Mrs. Aiona, members of the Legislature, cabinet members, Chief Justice Moon, Chair Apoliona, mayors, members of the consular corps, distinguished guests, and to the people of Hawai'i...good morning and aloha.

It is so good to be home after a few very cold days in Washington, D.C. where I attended the inauguration of President George W. Bush.

My trip to our nation's Capitol meant I had to miss the Legislature's opening day ceremonies but I read with great interest the speeches presented by both parties' leaders on that important day. I was encouraged by the new ideas, the willingness to discuss previously proposed solutions, and the call for collaboration.

Similarly, I was encouraged earlier this month by the gracious invitation from the Senate President and House Speaker to meet with Democrat leaders to discuss the 2005 legislative session. Their willingness to sit and talk about procedural matters as well as some of the important issues facing our state added to my already hopeful and optimistic feeling about the future.

Most people across the state are feeling optimistic as well. Consumer and business confidence levels are at all-time highs. People see good things ahead, and believe the future is bright.

But before looking to the future, let's glance back at the road we've traveled these past two years because that is the source of much of the optimism we are all feeling about the future.

Over the past two years we overcame state budget deficits in the hundreds of millions of dollars without laying off state workers or cutting important services. Fiscal prudence, and the willingness to make tough budget decisions were fundamental to this achievement.

At the same time, our economy has entered a period of growth and prosperity.

There are many new opportunities available to us, including those created last year when Hawai'i became only the second American state granted a tourism and trade office in China.

Our leadership role in the Asia-Pacific region is growing stronger as evidenced by the 1,000 people from more than 40 countries who participated in our 2nd Annual Homeland Security Summit.

And some of the world's most respected companies—Sanyo, Intel and Ebay—have established captive insurance companies in our state.

You can feel the energy and enthusiasm on the street, from the opening of the new medical school in Kaka'ako to the companies being created and flourishing at the Natural Energy Lab in Kona.

We are feeling good about ourselves again. But it's more than just a feeling. You can see it in the numbers.

Nearly 29,000 new jobs have been created in the last two years. That means more opportunities for our sons and daughters, and a chance for many that left to come home. We had the lowest unemployment rate in the nation for much of last year...including being lowest for five months in a row.

Visitor expenditures reached an all-time high of \$10.3 billion. Congratulations to the visitor industry, which ended 2004 by attracting almost seven million guests to our shores, an 8.3% increase over 2003.

Investor confidence is also high, and the construction industry is booming. Private building permits authorized during 2004 are estimated to exceed \$2.7 billion, 15% higher than 2003, which was previously Hawai'i's best year ever.

This long-awaited and welcome prosperity understandably bolsters our confidence. It creates optimism. And it offers us many new and exciting opportunities.

But it also brings challenges.

LOWERING THE COST OF LIVING

We cannot let the sparkle of economic vitality blind us to the needs of thousands of our fellow citizens across the state. The growing prosperity I just described has not been fully enjoyed by all. And as the economy has heated up, so has the cost of living.

There are too many families in our state struggling to survive and too many families just a paycheck away from having to move in with relatives or live on the beach. It is hard to be optimistic when the price of rent, food and medical care is going up faster than your wages. And it is hard to be hopeful when you are focused on just getting by.

Finding ways to ease the impact of the increased cost of living should be one of the first orders of business during this session. Ignoring this problem is ignoring the obvious. And the obvious will not just go away. And neither will the families that need our help.

Cutting Taxes

I want to use some of the revenues generated by our recent prosperity to pay for a modest yet important \$63 million tax cut over the next two years for individuals and families with low to moderate incomes.

These tax cuts include increasing take-home pay for lower income workers by raising the income tax standard deduction over the next three years to one-half of the federal standard deduction. Passage of this bill means 27,000 people will no longer have to file state tax returns, and 78,000 more will see their taxes reduced.

This is the single most significant thing the Legislature can do if they want to help those individuals and families who are living paycheck to paycheck.

In addition, I am proposing a new food and medical tax credit that will benefit 515,000 people or 40% of the state's population. The credit can be claimed by individuals and families earning less than \$40,000 a year.

I will also be increasing cash payments to low income families who are currently receiving public assistance.

To reward work and encourage self-sufficiency, I will eliminate the current practice of reducing welfare benefits for parents who go to work to help support their families. This policy change will transfer as much as \$58 million during the next two years from our Temporary Assistance for Needy Families reserves directly to an estimated 10,000 working parents, increasing their cash income by an additional \$200 to \$240 per month.

These three proposals to increase take-home pay for lower income workers should also be viewed as a way to prevent further homelessness and to help some that are currently homeless regain their dignity.

Creating More Affordable Housing

One of the most basic needs for any human being is a decent, safe, affordable place to live.

Our robust real estate market and lack of adequate support services for the chronically homeless mean this basic need is not being met for too many of our fellow citizens. This is a very big problem that I really believe we can solve if we're willing to be focused, collaborative and smart about the solutions. We certainly all agree it is one of the very biggest problems we face and one that we cannot ignore any longer.

This is a problem that requires collaboration between the state and counties and between the government and the private sector. When I challenged the business community last summer to join us in our efforts to deal with the lack of affordable housing, they answered the call.

We met throughout the fall with developers, financial experts, homeless providers and others to come up with a spectrum of solutions.

I am proposing a comprehensive plan that will help us create more affordable housing, preserve existing affordable rentals, and provide additional services for the homeless while living within our means. The plan includes financial incentives for private developers, faster government approvals, an increased funding source for new affordable rentals, as well as new funding to repair existing public housing.

This new law, which so many others have helped to develop, is called the Affordable Homes Act of 2005. The Act includes tax credits of up to \$4,000 for each of the first 2,500 affordable units completed by December 31, 2007. We want to reward builders who complete affordable units that are ready for families to occupy.

In addition, the Act streamlines the cumbersome government review process that has slowed the development of affordable housing and increased the costs of both for-sale and rental projects.

The Act doubles the amount of the existing conveyance tax transferred to the Rental Housing Trust Fund without raising the tax. And it prohibits the future transfer of money from any of the state's housing funds.

Since 1995, more than \$200 million has been transferred from eight state housing funds to the General Fund. Those transfers have contributed to the housing shortfall we face today.

As you may have read, we have set the ambitious goal of adding 17,000 affordable units to our housing stock over the next six years. To meet that goal we will need to first admit that government cannot achieve this on its own. Then we will need to work together—Administration and Legislature; public and private sectors; federal, state and county governments.

We cannot afford to fall short of meeting such a basic need. And we can never, ever accept that this is a problem that will simply always be with us.

I am glad to report to you that we are already making modest progress.

The Department of Hawaiian Home Lands last month broke ground for the largest affordable housing project in its 80-year history at the Villages of Kapolei. Already we have identified state lands that can be used for public-private partnerships to create affordable housing, and we are moving forward to develop these lands.

There will be many affordable housing groundbreakings, both public and private, in the coming years, and I invite you to be there with me at all of them.

Affordable housing will be remembered as the issue that brought us together and that served as the catalyst for a renewed sense of community responsibility. I look forward to working with you on this important issue. It will be our chance to show government at its very best.

INVESTING IN HAWAII'S FUTURE

I believe that government's role in helping its citizens achieve a good quality of life is more expansive than just affordable housing and tax relief.

To be able to live a good life, people must have the training and education for the kinds of jobs that pay enough to do more than just get by. People need to earn enough to be able to take a family vacation, save for their children's education, and retire with dignity.

When I stood before you last year, I called for dramatic reform of our public education system. The debate that followed was good for our schools and ultimately good for the entire state. But the debate didn't place much focus on preparing children for success before they enter the formal education system.

Expanding Early Childhood Education

Study after study has shown that early childhood education is a key to success later in life. State, federal and private funding for childcare and pre-school programs in Hawai'i totals nearly \$100 million a year, and yet many working families forego quality childcare because they simply can't afford it.

In addition, the existing pre-school programs cannot keep up with demand. This means that too many children are entering the school system without the basic skills they need to succeed.

To provide more support for these children, their families, and our existing pre-schools, I am launching the Early Childhood Education Initiative.

This initiative will enable 3,000 more children, ages 3 and 4, to attend high-quality, fully accredited pre-schools. It is a multi-pronged approach that provides financial assistance for “gap group” families, monetary incentives to pre-schools that adopt quality content standards, incentives for providers who attend training beyond existing licensing standards, and support for more adults to enter the early childhood education profession.

Supporting Charter Schools

Last year’s education debate also didn’t focus much on charter schools, an extremely important and exciting option for students and parents who feel the traditional public school system is not meeting their needs.

I have visited charter schools all across the state. Each and every time I visit one of these schools I come away feeling excited both by what I see and by what I envision they could be with sufficient resources. These schools present great opportunities for their students, and they fill me with optimism about what public education can be.

Charter schools deserve a lot more attention and action this session.

A recent state audit urged the Legislature and the Board of Education to create a panel to improve the charter school law.

After many hours of meetings and conversations between my staff, charter school officials, teachers and parents, we have crafted the Charter School Opportunity Act.

This comprehensive improvement in the treatment of charter schools will first and foremost assure them a fair share of the state’s education funding. In addition, it lifts the cap on the number of charter schools, adds additional chartering authorities and sets strict oversight standards.

It also creates a non-contiguous school district which charter schools on all islands can be part of. A recently released study mandated by the Legislature concluded that such a charter school district is a “potentially meaningful education reform strategy.” Becoming their own district will enable charter schools to compete directly and receive federal funds that currently must pass through the Department of Education.

Last August I had the opportunity to visit a model charter school in Manoa at the former Paradise Park. The students from that school, Halau Ku Mana, and their teacher, Keola Nakanishi, are with us today. Please welcome them.

Charter schools have become an important option for many parents, and their children who were struggling in the traditional public school system, and they have been instrumental in meeting the needs of thousands of Native Hawaiian children as well as students with special needs.

Let us work together to nourish these schools and to allow as many to flourish as there are parents, teachers and students with a vision to make them work.

Increasing Funding and Autonomy for the University of Hawai`i

We are all aware that the higher paying jobs of today and tomorrow more often than not will require training and education beyond the high school level. It is imperative that we begin providing adequate resources to the University of Hawai`i—both the four-year campuses and the 10-campus community college system. This investment is our best hope for meeting the higher education needs of our residents and contributing more than lip service to the University’s role in diversifying the state’s economy.

The University is poised to make steady and significant progress as a center of excellence in the coming years under the leadership of the Board of Regents and its new President, Dr. David McClain. President McClain has stepped forward to lead the University at one of the most challenging and exciting times in its history. I ask him to rise and be recognized for his commitment to the University and to the people of Hawai`i.

My proposed biennium budget earmarks \$20 million in new scholarship funds for the University to ensure that all who can meet the standards and want a higher education can get one. I have also budgeted an additional \$25 million for ongoing operations in order to meet what the University believes are its highest priorities. This \$45 million infusion of additional funding is the largest in University history.

Also, I have set aside \$80 million to rebuild and replace deteriorated buildings to ensure that our campuses are safe and well maintained. And I've included \$20 million to build the long-promised Hawaiian Language Building at UH-Hilo.

Beyond this, I am proposing tax credits that promote partnerships between the University and business in order to foster world-class research that creates commercial spin-offs and the opportunity for higher paying jobs.

Promoting Economic Development

Besides this new state funding, there are existing resources we can tap to make certain our workers are able to meet the demands of the 21st Century, and reap maximum benefit from our strengthening economy.

In the wake of 9/11, the state received millions of dollars in federal funds to support employment-related programs. I am requesting that the Legislature authorize us to spend \$20 million of that money on The Workforce Development Act, which will improve access to job training for workers across the state so businesses have the workforce needed to take full advantage of our growing economy.

In addition to providing training and educational opportunities for our residents, we must continue building a business environment in which they can succeed. We have done much to improve the business climate over the last two years, but we can do more.

Our Department of Commerce and Consumer Affairs has cut fees and assessments that will total \$10 million by the end of this fiscal year, and I want to give them the flexibility to make more cuts in the years ahead. Also, our new Hawai'i Business Express on-line business registration program is a big success and is being well used by businesses on all islands.

But there are more fundamental business issues we need to address this year.

First, I want to stem the outflow of successful start up companies by increasing investment capital. I am asking you this year to implement the State Private Investment Fund that you passed in outline form last year. This novel investment approach will provide financing to take promising companies beyond the start-up stage.

And, in response to the business community's plea for reform of the Workers' Compensation system, I am again introducing a balanced, common sense package of changes that will bring costs under control while ensuring that workers receive the benefits they need.

The current system is costly and ineffective. In fact, Hawai'i's Workers' Compensation System was highlighted as one of only eight to receive a failing grade in a recent national survey—a ranking that will surely stifle future economic growth and prosperity unless we take meaningful action this year.

Additionally, I will propose \$196 million in tax savings for businesses, by lowering the unemployment insurance tax wage base. This action will provide more money for Hawai'i's businesses to increase employee wages, expand benefits, and create additional jobs in the private sector.

An issue you identified on Opening Day, traffic, has become a significant drain on the economy as well as on the quality of our personal and family lives. There is no single, easy answer to this daily frustration.

Our Department of Transportation has taken steps to reduce and manage traffic through various projects, but it is not enough and we know it. The Department knows this is a problem that affects a majority of people in the state each day.

It will carry out a combination of new programs, such as the Freeway Patrol Service that will begin by late summer, as well as major highway improvement and expansion projects on all islands.

I am honored that we are joined today by the state's mayors, including Honolulu's new mayor, Mufi Hannemann. Our transportation director, Rod Haraga, has already met with the mayor and I look forward to working closely with him as we address traffic issues in Honolulu. Both Mayor Hannemann and I have been supporters of mass transit on O'ahu and his election offers us an opportunity to look at that issue again.

The final point I will make on traffic is to inform you of my decision not to use money from the State Highway Fund in order to balance the general fund budget even though you authorized the transfer last year. In my travels around the state, the voices of our residents have been loud and clear. They want the existing roads fixed and they want solutions to our traffic problems.

Our Department of Transportation is working hard to keep Hawai'i on the move, but we need to use this highway money for repair, maintenance and construction of our roads and highways, and for no other purpose.

In an island state such as ours, an integrated statewide transportation system is more than just highways. We are committed to investing \$40 million to be repaid over time by the proposed Superferry that will provide a new inter-island passenger, cargo and vehicle transportation alternative. I believe this project can reinvigorate economic activity between the islands that has been stifled by rising inter-island airfares. And it can bring families closer together because of its lower price to travel from one island to another.

HELPING KEIKI AND KUPUNA

Being responsive to the public's needs means thinking ahead and preparing for challenges we know are coming.

Addressing Long-Term Living

We face a growing problem as more of us reach the age when we may require long-term care. This is a problem we have talked about for a long time. Today, 127,000 of our residents are 70 years or older. By 2025, the number will be 209,000, a 64% increase. We ignore this fact at our peril. Time will not stop while we search for the perfect solution.

I am proposing that we give incentives to individuals who take personal responsibility for their later years by purchasing insurance. I am suggesting a tax credit of up to \$1,000 per year for persons who purchase long-term care insurance, and I want to provide tax incentives for employers who purchase such insurance for their employees.

Along with these incentives, we will encourage the purchase of insurance plans that pay for In-Home Care so our senior citizens can remain in their own homes instead of nursing home care being their only option.

KEEPING RESIDENTS AND VISITORS SAFE

Another important step we need to take in order to protect our kupuna, as well as the community, is to get tougher on crime.

The Law Enforcement Coalition of Hawai`i, under the able leadership of Attorney General Mark Bennett, has proposed measures to protect our kupuna, keiki and communities from sex offenders, drug dealers and career criminals. I pray the Legislature will take action this year to support our law enforcement personnel in their efforts to keep Hawai`i safe.

Supporting Our Troops

I've talked this morning about a variety of subjects ranging from tax cuts and affordable housing to early childhood, charter school and university education to economic development, traffic, long term care, and crime. But I don't want to end without mentioning our fellow citizens who are serving in the regular military, reserve and National Guard, especially those serving in combat zones.

Both the Administration and the Legislature will offer specific bills this session to help the military and their families.

Some of our military families are with us today. It is with a great deal of pride that I ask you to join me in expressing our gratitude for their daily sacrifices. Please stand and be recognized.

These tax relief and other measures to help military families are important gestures for us to make. They express our gratitude to those who risk their lives on our behalf. But I believe there is something far more significant we can do to honor the sacrifice they are making for us, our state and our nation.

We can honor their service by minimizing the politics this session and by keeping our focus on their families and families across our state.

OPTIMISM AND OPPORTUNITIES

Not many expected that the first year or two with a new governor would go very smoothly, and the public has been patient with us. The people have given us a couple years to get to know each other and now they want results. They want creative thinking and bold actions. They want what they have paid for—elected officials who put the public first. They want leaders who compromise to achieve common goals.

This is such an exciting time in our state's history. I don't know how you can look ahead and be anything but optimistic and hopeful. No one who's paying attention can fail to see the golden opportunities that lie before us. This is our time—yours and mine. Let's not squander these opportunities.

We have the compassion to help those most in need, the will to meet the challenges of our times, and the intelligence to craft effective solutions to our problems. And after two years of conservative fiscal management and a strengthening economy, we now have the resources we need to fund a variety of solutions.

When future generations look back at this time, I believe they will see it as a period in our history when we regained confidence in ourselves and our ability to meet any challenge.

It will be seen as a time of renewal of all that is best about Hawai'i. It will be remembered as a time of renewed respect for our host culture and the fulfillment of obligations to Native Hawaiians.

It will be seen as a time when environmental protection was approached with seriousness of purpose and sufficient resources.

It will be recalled as the point in our history when we stopped trying to control business and instead unshackled businesses so they could compete and flourish in the global economy.

It will be recollected as a time when the University of Hawai'i reached its full potential as an esteemed institution of higher learning with access for all who dreamed of education as the path to a better life.

And it will be recognized as a time when leaders were wise enough to understand that we needed both to invest in the future while caring for those who needed our help in the present.

So throughout the session, let's keep our soldiers, airmen, sailors, marines and coast guardsmen in the forefront of our minds. They are putting their lives on the line so that we can practice our democratic form of government. Let's honor their sacrifice by giving this session our maximum effort, and by always putting the needs of our residents ahead of any special interest.

It has been said that, "Destiny is not a matter of chance; it is a matter of choice."

This session, let's make the right choices—for our aina, for our people, for our future.

God Bless the people of Hawai'i, and God bless the United States of America.

###